Financial Management
Line of Business

Migration Planning Guidance (Version 1)

Section 1.2 Frequently Asked Questions

This section aims to answer questions from customer agencies, service provider agencies, and commercial vendors about the vision, requirements, implementation, and risks of migration to a shared service provider (SSP) as part of the Financial Management Line of Business (FMLoB) initiative.

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1.2 Frequently Asked Questions

This section aims to answer questions from customer agencies, service provider agencies, and commercial vendors about the vision, requirements, implementation, and risks of migration to a shared service provider (SSP) as part of the Financial Management Line of Business (FMLoB) initiative.

Overview of the FAQs Section

The FAQs are laid out as follows:

- Part A: FMLoB Overview
- Part B: FMLoB SSPs
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- Part D: Moving to an FMLoB SSP
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Part A: FMLoB Vision and Goals

1. What are the vision and goals of the Financial Management Line of Business (FMLoB)?

The overall vision of the FMLoB is to improve the cost, quality, and performance of financial management (FM) systems by leveraging shared service solutions and by implementing other government-wide reforms that foster efficiencies in Federal financial operations. [1]

The goals of the FMLoB include implementing Federal financial systems that:

- Provide timely and accurate data available for decision-making;
- Facilitate stronger internal controls that ensure integrity in accounting and other stewardship activities;
- Reduce costs by providing a competitive alternative for agencies to acquire, develop, implement, and operate financial management systems through shared service solutions;
- Standardize systems, business processes, and data elements; and
- Provide for seamless data exchange between and among Federal agencies by implementing a common language and structure for financial information and system interfaces.[2]

2. What is the desired future state of the FMLoB initiative?

When the FMLoB vision is realized, there will be a limited number of stable and high-performing shared service providers (SSPs) that offer competitive alternatives for agency investments in financial management system modernizations and operations. Federal agencies will leverage the economies of scale and skill provided by the SSPs to help them achieve lower risk, lower cost, and increased service quality in their financial system modernization efforts and operations.[3]

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1 Office of Management and Budget, Memorandum for Chief Financial Officers, Update on the Financial Management Line of Business and the Financial Systems Integration Office, Pg. 1. December 16, 2005.

2 Office of Management and Budget, Memorandum for Chief Financial Officers, Update on the Financial Management Line of Business and the Financial Systems Integration Office, Pgs. 1-2. December 16, 2005.

3 Adapted from Office of Management and Budget, Memorandum for Chief Financial Officers, Update on the Financial Management Line of Business and the Financial Systems Integration Office, Pg. 3. December 16, 2005.

3. What is the scope of the FMLoB initiative?

The scope of an FMLoB migration is limited to the core financial system. The *Core Financial System Requirements*[4] outlines the components that comprise both a core financial system and its integration points.

However, the FMLoB PMO recognizes that integration of non-core financial functions with the core financial system is critical to improved financial management. The FMLoB does not change the Agency Chief Financial Officer's responsibility to support the agency with integrated and secure financial systems as outlined in the Chief Financial Officer (CFO) Act of 1990 and the Federal Financial Management Improvement Act of 1996 (FFMIA). In addition, it does not change the Agency CIO's responsibility to ensure that the financial system is part of the agency's overall enterprise architecture, to eliminate duplication of systems linked to the core financial system, and to reduce the total cost of ownership of its overall IT investment portfolio, as outlined in the E-Government Act of 2002.

4. What are the primary tools that will be used to achieve the vision of FMLoB?

The primary tools for FMLoB include:

- Federal and commercial SSPs;
- Financial Systems Integration Office[5] (FSIO)-compliant core financial systems;[6]
- OMB Competition Framework for FMLoB Migrations;
- Four collaborative work streams launched to achieve transparency and standardization[7]:
  - Migration Planning Guidance (the Guidance; this document) – The purpose of this work stream is to develop guidance and tools for agencies interested in migrating to or becoming an SSP. The

4 The current document is OFFM-NO-0106, January 2006. Please check for updates at http://www.fsio.gov/fsio/.

5 FSIO is formerly the Joint Financial Management Improvement Program (JFMIP) office. (http://www.fsio.gov)

6 OMB Circular No. A-127—Revised, requires Software Certification Testing of "off-the-shelf" to ensure that it meets core financial system requirements, 8d(2), June 1999.

7 Office of Management and Budget, Memorandum for Chief Financial Officers, Update on the Financial Management Line of Business and the Financial Systems Integration Office, December 16, 2005.

Guidance document will be a living document, to be updated periodically.

- Performance Measures – The purpose of this work stream is to develop a series of metrics and measures, which are aligned with the Federal Enterprise Architecture (FEA) Performance Reference Model (PRM), to help agencies assess both their internal operations and the major service areas offered by an SSP. The initial version of the performance measures is currently included in this Guidance (Sections 2.7 and 2.8). FSIO intends to refine the current list of performance metrics by adopting a phased approach as described in the Next Steps of Section 2.7.

- Standard Business Processes, Rules, and Data Elements – The purpose of this work stream is to develop a standard set of business processes, rules, and data elements for core financial management functions that can be adopted by all Federal agencies to streamline future migrations and ensure data can be shared across agency business systems. These standards will be aligned to the FEA Business Reference Model (BRM) and Data Reference Model (DRM). The initial set of Standard Business Processes will include processes for funds management, payments, receipts, and reporting, and will be released over the Winter of 2006 and Spring of 2007. Future business process standards for other core and non-core financial management functions (e.g. cost management, fixed assets) and interfaces to feeder systems will be developed at a later date. In some cases, the business process standards may necessitate changes to FSIO software requirements; the schedule for such changes will be determined at a later date. The expectation is for all Federal agencies to adopt these standards to streamline future migrations; the schedule for this adoption will be determined later. It is likely that each agency will develop its own schedule in consultation with OMB.

- Standard Common Government Accounting Code (CGAC) – The purpose of this work stream is to develop a common government accounting code structure, including an applicable set of definitions. The anticipated release date of the standard CGAC is Fall 2006. The expectation is for all Federal agencies to adopt this structure to streamline future migrations; the schedule for this adoption will be determined later. It is likely that each agency will develop its own schedule in consultation with OMB.

5. (NEW) How does FMLoB intend to address outstanding issues?

During the comment period for the draft version of the Guidance document, agencies and shared service providers raised several questions that require further policy consideration. Future versions of the Guidance will include information on the following:

- Screening and evaluation of Shared Service Providers (SSP) and Due Diligence Checklist
- Arbitration for bid and contract disputes between Federal agencies
- Instructions for smaller agencies on migration competitions
- Reporting requirements for Performance Measures
- Federal SSP investments for modernization efforts
- Principles underlying the development of Federal SSP/commercial partnership agreements

Part B: FMLoB shared service providers (SSPs)

1. What is an SSP for FMLoB and how does it function?

An SSP, previously referred to as a Center of Excellence or Shared Service Center, is an organization that provides technology hosting and administration, application management, business process services, and system implementation services for other entities, including government agencies.

An SSP for FMLoB must:

- Demonstrate that it has the capacity to successfully provide the appropriate level of services to customer agencies. This includes demonstrating a modern, deployed system that is extensible to service others.
- Maintain, over time, a quality of service expected by the Federal agency customer base;
- Meet and maintain the demonstrated capabilities outlined in the OMB *Competition Framework for FMLoB Migrations*:
  - Utilize a core financial management system meeting requirements issued by FSIO;
  - Meet and maintain the requirements of the FMLoB Due Diligence Checklist (see *Section 2.1 FMLoB Due Diligence Checklist*); and
  - Comply with any additional applicable requirements, such as: privacy, security, section 508 of the Rehabilitation Act, continuity of operations, critical infrastructure protection, disaster recovery, service level agreements, and help desk services. A list of mandates and requirements is provided in Section 7 of this Guidance.

OMB has designated only Federal SSPs. Private sector contractors may demonstrate their capability to serve as SSPs through competition. However, agencies should conduct a public-private competition in accordance with OMB's *Competition Framework for FMLoB Migrations* to determine the best provider. Please refer to FAQ Part E, Questions #1 and #2, for further information on the designation of SSPs.

2. What are the services provided by SSPs for FMLoB?

SSPs for FMLoB are expected to offer the following four categories of service to cover the wide breadth of financial management operations:

- **Technology Hosting and Administration** – involves providing the IT infrastructure (facilities and infrastructure software) that serve as the foundation for running business software applications and the services to maintain that infrastructure. Page 3 of Section 5.1, Menu of Services Overview, provides a graphical representation of this service category.

- **Application Management Services** (or Software Management) – involves providing the software and services for running and managing access to business software applications, in this case, financial management software and the feeder systems that provide data to the financial management software.

- **Business Process Services** – involves providing services ranging from transaction processing to financial management reporting and analysis. Agencies should expect the range of service offered by providers in this category to vary, and should consider those providers who have the capacity to meet the agency's requirements.

- **System Implementation Services** – includes services to help an agency through a migration of their current financial management operations to the SSP environment.

Customer agencies are encouraged to issue a single solicitation that includes system implementation services in order to leverage the expertise of the SSP in integrating operations into its host environment. An agency migrating to an SSP (referred to hereafter as a Migrating Agency) is required to migrate its technology hosting & administration and application management to the SSP. However, a Migrating Agency is not required to purchase all of the above four categories of service.

The agency's choice of services should be documented in the agency's OMB Exhibit 300.

Please reference the Menu of Services Overview (Section 5.1) provided in this Guidance for additional detail. In addition, Section 5.2 and 5.3 provide a detailed list of the service offerings by SSP.

3. Are there any SSPs currently in use today?

Yes, the concept of sharing services has been utilized by the Federal government since the early 1980's. Sharing services within the Federal environment is often referred to as "cross-servicing."

There are currently four designated Federal FMLoB SSPs. They are:

- Bureau of Public Debt (Administrative Resource Center)[8]
- Department of Interior (National Business Center)[9]
- Department of Transportation (Enterprise Services Center)[10]
- General Services Administration (Federal Integrated Solutions Center)[11]

In addition, commercial providers that can satisfy the shared service requirements have been encouraged to participate in the procurement process for these services. Several agencies have contracted with commercial SSPs to support their financial systems operations.

Please see the Service Offerings section (Section 5) of this Guidance for more information on current providers and their services.

8 http://arc.publicdebt.treas.gov/

9 http://www.nbc.gov/

10 http://www.esc.gov/

11 http://fisc.gsa.gov/

Part C: FMLoB Mandate

1. Are the agencies mandated to migrate to an SSP?

It is OMB's intent to avoid costly and redundant investments in "in-house" solutions for common support services so that shared service operations may achieve their full potential and anticipated returns.[12] To this end, it is OMB's policy that, with limited exception, an agency seeking to upgrade to the next major release of its current core financial management system or modernize to a different core financial management system must either migrate to an SSP or qualified private sector provider, or be designated as an SSP.[13] An agency may rely on its in-house core financial management system operations without being designated as an SSP only if the agency demonstrates that its internal operations represent a best value and lower risk alternative over the life of the investment.[14]

Please refer to FAQ Part C, Questions #2 and #3 below and the OMB *Competition Framework for FMLoB Migrations* for additional guidance.

2. (NEW) When should my agency adopt the policy on FMLoB migration?

When an agency reaches the appropriate time in its current system's life cycle, it should adopt the most current FMLoB Guidance. The "appropriate time" is when an agency has identified a performance gap that requires that the agency ultimately request Development Modernization and Enhancement (DME) funds for their financial management system. Please refer to Part C, Question #3 below.

Agencies who have OMB-approved plans under prior versions of the Guidance should continue achieving the milestones in their approved plan. However, agencies should be up-to-date with the current Guidance and determine whether any adjustments need to be made to their approved plan.

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12 Office of Management and Budget, Memorandum for Chief Financial Officers, Update on the Financial Management Line of Business and the Financial Systems Integration Office, Pg. 6. December 16, 2005.

13 Office of Management and Budget, Competition Framework for Financial Management Lines of Business Migrations, Pg 1. May 22, 2006.

14 Office of Management and Budget, Competition Framework for Financial Management Lines of Business Migrations, Pg 2. May 22, 2006.

3. What are the expectations for how agencies should consider and analyze FMLoB solutions?

An agency's consideration of FMLoB should be part of its long-term financial system planning process. As such, an agency's initial analysis would begin several years in advance of the agency's need for funding. A recommended analysis process is identified below. An agency should plan for this analysis to span a six-to-twelve month period, and is advised to work in concert with OMB throughout the process.

- **Step 1 - Performance Gap Review:** The agency should be continually assessing whether performance gap(s) exist or are anticipated between the overall financial management strategy and its current financial solution. When evaluating a performance gap, an agency needs to consider FSIO requirements, audit and statutory requirements, the agency's financial management system and its business architecture.

- **Step 2 - Meet with OMB:** Once an agency identifies performance gap(s) and subsequently requests DME funds for the agency's financial management system, the agency should meet with OMB to present options to close these gap(s).

- **Step 3 - Business Case Analysis:** The agency should perform a business case analysis to select the best option to close its performance gap(s). This analysis could include the following factors:

  - Current situation and business issues—motivation to change; the "burning platform"
  - Baseline of status quo*
  - Benchmarks against comparable organizations
  - Vision for financial systems and processes, including the role of Shared Service; conformity to OMB Circular A-127
  - Life cycle costs/budget(refer to OMB Circular A-94)*
  - Disaster recovery*
  - Performance goals/metrics*
  - Acquisition strategy*
  - Program management*
  - Enterprise architecture* (conformity to OMB Circular 130), including integration points with the core financial system
  - Performance-based management system*
  - Support for the President's Management Agenda*
  - Alternatives analysis*
  - Risk management*
  - Security & Privacy *
  - Anticipated benefits, recommendations, and action plan
  - Relation to overall capital/IT plan

- Anticipated staff issues
- People/skill set requirements
- Change management and training needs
- Implementation approach and timetable

* Indicates that the factor is a requirement of *OMB Circular A-11, Part 7: Planning, Budgeting, Acquisition and Management of Capital Assets*

- **Step 4 - Solution Selection and Approval:** Based on its business case analysis, the agency should select the best solution to close its performance gap(s) and present the solution to OMB for approval.

- **Step 5: Acquisition Strategy:** Based on its business case analysis, the agency should develop potential acquisition strategies for its approved solution including migration to a shared service provider. The agency should include this acquisition strategy in its OMB Exhibit 300.

- **Step 6: Budget Request:** At the appropriate time in the budget cycle, the agency will request funding for its approved solution using the processes outlined in the agency's budget guidance and the *OMB Circular A-11, Part 7: Planning, Budgeting, Acquisition, and Management of Capital Assets.*

4. (NEW) How should an agency use the OMB Exhibit 300 as part of its analysis?

The OMB Exhibit 300 is a vehicle to formally document an agency's high-level analysis of its capital investments and must be submitted for all major investments for which an agency is requesting funding, in accordance with *OMB Circular A-11, Part 7: Planning, Budgeting, Acquisition, and Management of Capital Assets.* The OMB Exhibit 300 provides a summary of the results of an agency's IT analysis, asset planning, or capital programming processes.

5. How soon should my agency migrate to an SSP?

An agency's schedule for moving to an SSP will be decided based upon the timeline for upgrading or modernizing its financial management system. OMB will work with agencies to determine the best date for their migration milestone. The capabilities of the SSPs will also be used in the determination of the schedule.

However, it is anticipated that within 10 years of the release of this Guidance, all agencies will have decided whether to migrate their technology hosting &

administration and application management to an SSP or to become an SSP themselves.

6. What if my agency is already in the midst of an OMB-approved financial management system upgrade or modernization? Does my agency now need to consider migration to an SSP?

The FMLoB initiative is not intended to add risk to the investment decision of an existing, on-going financial management system implementation or to move an agency to an SSP before it is ready. However, it is OMB's intent to avoid costly and redundant investments in "in-house" solutions; therefore, it is recommended that an agency discuss its ongoing effort with OMB. Generally, so long as the agency is meeting the IT milestones of its upgrade plan agreed upon with OMB, the agency will not need to consider migration until the "appropriate time" in its systems life cycle (i.e., when the agency has identified a performance gap that requires that the agency ultimately request DME funds for their financial management system).

7. What if my agency is not on the latest version of FSIO-compliant software? Must my agency now consider migration to an SSP?

Under OMB Circular A-127, each agency is required to operate a core financial management system meeting requirements issued by FSIO. Not operating the latest version of the FSIO-compliant software constitutes a potential performance gap that must analyzed. If the performance gap is sufficient to require that the agency request DME funds, then the agency must consider migration. Please refer to FAQ Part C, Question #3 for further guidance on this analysis.

8. (NEW) What if my agency has migrated only technology hosting & administration to an SSP but not application management?

If an agency is serviced by an SSP, but has not migrated both technology hosting & administration and application management services to the SSP, then at the end of the contract, it must seek application management services in addition to hosting. Refer to FAQ Part C, Question #3.

Part D: Moving to an FMLoB SSP

1. If OMB has approved our agency's financial systems solution, what process should we now undertake?

Once OMB has approved an agency's financial systems solution, an agency should execute its acquisition strategy.

Further information regarding the guidelines for the competitive process is outlined in the OMB *Competition Framework for FMLoB Migrations*.

2. What is the process by which my agency should obtain funding for migration?

Agencies should include any request for funding for a planned migration as part of its normal budget process.

3. If my agency is migrating to an SSP…

Must it migrate ALL financial operations to a shared service provider?

No, an agency is only required to migrate technology hosting & administration and application management to an SSP.

However, agencies are encouraged to evaluate shared services such as accounting or transaction processing. Agencies may find through their evaluation that considering more services together could decrease an agency's overall cost of operation. Smaller agencies, in particular, are encouraged to migrate all of their financial operations to an SSP.

(NEW) Must it migrate ALL feeder systems to a shared service provider?

No. As part of its overall Enterprise Architecture (EA) planning, agencies must determine the best approach for maintaining and operating feeder systems to the core financial system, including leveraging the infrastructure and capabilities of its SSP.

The resulting EA may result in an agency:

- migrating feeder systems to the same hosting environment as the core financial system,
- maintaining the existing operational model of feeder systems,
- shutting down feeder systems, and/or
- using the SSP's feeder systems.

Regardless, the customer agency is responsible for outlining its overall integration requirements and for delineating who will own the integration of each feeder system, whether it is owned by in-house organizations, contractors, or the SSP.

Must it migrate all bureaus concurrently?

No, the agency does not need to migrate all bureaus to the chosen SSP concurrently. Agencies must assess and weigh the risks associated with migrating multiple bureaus concurrently. Agencies should outline a timeline for migrating all of the bureaus within the agency to an SSP environment based upon the risk assessment.

Must all migrating bureaus utilize the same SSP services?

No, an agency may decide, based on its needs, to procure different levels of service or more common services for different bureaus. However, with limited exception, all bureaus are required, at a minimum, to migrate technology hosting & administration and application management to a single SSP.

4. Can my agency separately contract with a third-party to provide implementation and/or advisory services (e.g. integration, Project Management Office, IV&V, etc.) to assist in its migration?

A Migrating Agency is encouraged to use the implementation expertise of the SSP in integrating operations into its host environment. SSPs are expected to offer implementation services to agencies to leverage the expertise of the SSPs solution environment, and economies of scale and skill. This may not eliminate an agency's need to enter into separate contracts for Program Management support and IV&V services. If an agency decides to contract separate services, the agency should inform the SSP about its intentions. In addition, the agency should stipulate expectations for full cooperation among the parties in its formal agreements with the SSP.

5. (NEW) Does OMB's *Competition Framework for Financial Management Lines of Business Migrations* (dated May 22, 2006) provide authorization to directly convert work currently performed by its FTEs to a commercial (private sector) SSP?

No. OMB's framework creates a preference for public-private competition, both for activities involving more than 10 FTEs as well as those involving 10 or fewer FTEs. Agencies must prepare a justification and confer with OMB prior to proceeding with a migration through other than a public-private competition for an activity of any size. The justification must be approved by the agency's Chief Financial Officer, Chief Information Officer, and Chief Acquisition Officer. A migration through a means other than a public-private competition must be consistent with any laws requiring the application of public-private competition prior to the conversion of work to private sector performance, such as section 842(a) of P.L. 109-115.

6. (NEW) Does OMB's *Competition Framework* require the application of Circular A-76?

Agencies must use Circular A-76 for the migration of activities performed by more than 10 FTEs, except as provided in deviations granted by OMB. Agencies may decide to use the Circular for activities performed by 10 or fewer FTEs. However, the agency must still conduct a public-private competition for activities performed by 10 or fewer FTEs irrespective of whether the Circular is used, unless the agency prepares a justification and a deviation is approved by OMB. OMB's framework sets parameters for small public-private competitions that are not conducted pursuant to the Circular. For competitions involving 10 or fewer FTEs, the relative weight of cost and quality should be determined on a case-by-case basis.

Part E: Becoming an FMLoB SSP

1. How does a Federal agency become an OMB-designated SSP?

For Federal SSPs, there will be a limited number of designated stable and high-performing shared service providers (SSPs) that offer competitive alternatives for agencies investing in financial management system modernizations and operations. The initial Federal SSPs were selected through a process that used the Financial Management Line of Business Due Diligence Checklist.

New Federal SSPs would only be designated if there is an under-served Federal agency population and if an agency can demonstrate to the FMLoB Managing Partner that the agency both meets the requirements outlined in FAQ Part B, Question #1, and that they have modern, deployed system that is extensible to service others.

Please refer to *OMB Circular A-11, Part 7: Planning, Budgeting, Acquisition and Management of Capital Assets* for further guidance.

2. How does a commercial provider become an OMB-designated FMLoB SSP?

There is presently no OMB designation of commercial providers as an FMLoB SSP. Instead, agencies will determine, through competition, if a commercial SSP meets FMLoB requirements.

A commercial provider seeking to become an SSP for Federal agencies will respond to a Customer Agency's Request for Proposal (RFP). In its response to the RFP, the provider must demonstrate that it meets the requirements outlined in FAQ Part B, Question #1.

3. How often does an SSP need to evaluate itself against the FMLoB Due Diligence Checklist?

The FMLoB Due Diligence Checklist is to be revisited by an SSP whenever 1) an SSP submits a response to a competitive procurement, 2) a Customer Agency enters into an agreement with the SSP, or 3) (for Federal SSPs only) a Federal SSP submits its annual Information Technology (IT) budget request.

However, as a rule, compliance with FMLoB Due Diligence Checklist should be maintained at all times. Refer to FAQ Part F, Question #2 for additional information on the impacts of non-compliance with the FMLoB Due Diligence Checklist.

Agencies are encouraged to require that the SSP submit the Due Diligence Checklist to the agency annually for review. This request should be specified in the agency's requirements and subsequently documented in the negotiated agreements.

In addition, customer agencies and SSPs should review updates and modifications to the FMLoB Due Diligence Checklist during the contract renewal period to determine if existing agreements should be updated.

OMB is evaluating the recommendations from the agencies, Federal SSPs, and commercial vendors that a single body review SSP compliance to the FMLoB Due Diligence Checklist.

4. How can agencies evaluate costs among among Federal SSPs?

SSPs, whether Federal or commercial, are expected to be transparent about what is included in their costs. Although cost accounting principles are not consistently applied throughout the entire Federal government, there exist many best practices that Federal SSPs can use to capture cost information under a shared service arrangement in the absence of a cost accounting system. OMB Circular A-76 provides recognized and verified principles for establishing full cost of government performance. Please refer to the OMB *Competition Framework for FMLoB Migrations*, for information on the application of Circular A-76.

5. How does a Federal SSP fund its capital investments for enhancements and infrastructure upgrades?

Federal service providers must establish a capitalized investment plan based on their statutory authority (Economy Act or intra-governmental revolving fund such as a franchise fund or working capital fund).

Based upon their statutory authority, a Federal SSP's capital investment plan may include options such as: (i) retaining earnings for investment, (ii) requesting additional budget authority for investments combined with a plan to recoup the investment, and (iii) establishing agreements with customers to fund investments.

6. Could one Federal SSP have an advantage over another Federal SSP in funding capital improvements because of the funding authority under which the SSP operates?

Yes, a Federal SSP's process and approval limits for capital improvements differ depending on whether the SSP operates under a franchise fund, a revolving fund, or the Economy Act. A franchise fund or some other working capital fund will give agencies additional flexibility to fund improvements necessary to meet customer needs.

Part F: Reasons for and Impacts of Losing FMLoB SSP Designation

1. How does an SSP lose its FMLoB SSP designation?

A Federal SSP may lose its FMLoB SSP designation if it:

- Fails to maintain compliance with the FMLoB Due Diligence Checklist (See Section 2.1, the FMLoB Due Diligence Checklist), and subsequently fails to implement a corrective action plan (refer to FAQ Part F, Question #2 below*).*
- Discontinues offering customer agencies all four categories of service referenced in FAQ Part B, Question #2; or
- Loses market share due to poor performance against agency expectations.

OMB has designated only Federal SSPs. However, an agency may negotiate termination conditions with commercial SSPs based on the same criteria that would cause a Federal SSP to lose its FMLoB SSP designation.

2. If an SSP fails to maintain compliance with the FMLoB Due Diligence Checklist, what are the ramifications to the SSP?

If any SSP, whether Federal or commercial, fails to meet one of the requirements in the FMLoB Due Diligence Checklist, they are obligated to provide the Customer Agency with a corrective action plan, as agreed upon in its agreement instruments (master agreement and/or service level agreement) to show how they will be in compliance with the FMLoB Due Diligence Checklist within a mutually agreed-upon period of time. The Customer Agency will determine the adequacy of the plan. Please refer to FAQ Part G, Managing Accountability and Shared Service Agreements.

If a Federal SSP does not follow through with the action plan, then its SSP designation may be removed. However, the ramifications to the provider on its existing contract with its customer agencies will be based on terms and conditions in the contract or IAA between each individual Customer Agency and the SSP. Please refer to FAQ Part G, Managing Accountability and Shared Service Agreements.

If a commercial SSP does not follow through with the action plan, the ramifications will be based on terms of the agreement between each individual Customer Agency and the SSP.

For both Federal and commercial SSPs, failure to meet the minimum criteria established in the FMLoB Due Diligence Checklist could affect the SSP's ability to receive new work.

3. If a Federal SSP is beginning to show signs of losing its OMB designation or loses its designation, what are the ramifications to the SSP?

If an SSP is beginning to lose or loses its OMB designation, the ramifications to the provider on its existing contracts with its customer agencies will be based on terms of the agreement between each individual Customer Agency and the SSP. Please refer to FAQ Part G, Managing Accountability and Shared Service Agreements.

4. If a Federal SSP loses its OMB designation as an FMLoB SSP, how will this impact its customers?

The loss of Federal SSP designation does not necessarily mean an immediate move for customer agencies away from the Federal SSP. The terms of the agreement between the Customer Agency and the SSP will determine the next steps of action.

It is expected that the agreement(s) between the SSP and Customer Agency has/have outlined the expectation for the provider to develop and manage to a corrective action plan in order to reinstate its OMB designation. It is also expected that the agreement(s) has/have performance standards and exit criteria that the Customer Agency will enforce with the provider. Please refer to FAQ Part G, Managing Accountability and Shared Service Agreements.

It is reasonable to expect that the Customer Agency would need to evaluate its alternatives for appropriate action and timing to reduce risk and unnecessary cost. For example, a Customer Agency may determine, based on its evaluation of a Federal SSP's corrective action plan, that it will maintain its relationship with the SSP through the end of its agreement or terminate upon breach of the corrective action plan. However, if a Customer Agency feels at risk continuing with their SSP during the corrective action period, it should work with OMB. In addition, it is recommended that the agency work with OMB on a mitigation plan should the agency decide that it must end its agreement with the service provider.

5. Does an audit finding of the Federal SSP's parent agency affect the Federal SSP's designation by OMB?

It depends on whether the business practices and systems of the SSP are the cause of the audit finding.

- If the Federal SSP's financial system has produced financial statements that have resulted in an unfavorable audit opinion and is a result of system deficiencies by the SSP, then the SSP is not in compliance with the FMLoB Due Diligence Checklist.
- However, a Federal SSP's parent agency can fail to achieve a clean audit opinion for reasons outside of the auspices of the SSP or of the financial management system operated by the SSP. For example, an unfavorable audit opinion may be generated by the parent agency for not maintaining strong policies and processes in financial areas in which the SSP is not providing service (e.g. inventory, plant property, or equipment) or by not maintaining internal controls outside the auspices of the SSP. In this case, the Federal SSP's designation may be unaffected. Regardless, the Federal SSP must be prepared to address the concerns of its current customers by demonstrating it is maintaining sound business practices and by detailing the impact that its parent agency's audit finding will have on its ability to market to future customers.

A Customer Agency should perform due diligence to understand whether the financial deficiency of a Federal SSP's parent agency could impact the Customer Agency's audit opinion, and to use this understanding as a criteria when selecting an SSP and its services.

6. Does an audit finding of a Customer Agency affect the SSP's designation?

It depends on whether the business practices and systems of the SSP are the cause of the audit finding. A Customer Agency is responsible for any audit findings created by processes not within the control of the SSP.

Per the Federal Financial Management Improvement Act (FFMIA), customer agencies are responsible for the integrity of their own financial data, and ensuring that the appropriate internal controls are in place to support financial integrity.

However, if it is the SSP's financial system that has failed to produce clean financial statements or cause security issues, then an SSP is not in compliance with the FMLoB Due Diligence Checklist. Please refer to FAQ

Part F, Question #2 for additional information on the ramifications to SSPs that fail to maintain compliance with the FMLoB Due Diligence Checklist.

Part G: Managing Accountability and Shared Service Agreements

1. What are the minimum set of agreements that will be necessary between a SSP and a Customer Agency?

The Customer Agency and SSP should enter into an overall contract (commercial SSP) or inter-agency agreement (Federal SSP) that includes a Service Level Agreement (SLA). The specific model for inter-agency agreements will vary by agency and may also include a Memorandum of Understanding (MOU). Please refer to the SLA Overview (Section 2.5) and SLA Template (Section 2.6) in this Guidance document for additional information.

2. What should the agreements cover?

The nature of agreements is to be determined by the agency and the provider, and the requirements of the Federal Acquisition Regulations (FAR). However, it is recommended that agreements, in addition to establishing agreed-upon workload, scope, time period, and cost, also clearly identify agreed-upon:

- **Performance metrics and method of quality surveillance**
  - Performance metrics should be outlined in such a fashion that performance of core functions and other value-added services can be periodically evaluated and refined. A Customer Agency should use performance against established targets to measure satisfactory service. This evaluation will help an Agency decide whether they will continue service or consider migrating to another Federal or commercial SSP over the long-term, if service is not satisfactory.
  - In particular, the Customer Agency must have a Quality Assurance Surveillance Plan (QASP) and a team in place to implement the plan, and be able to evaluate the provider's performance on an ongoing basis for consideration in future competitions for Federal work.
- **Performance Incentives**
  - The contract or agreement should include negative incentives for poor performance and positive incentives for performance exceeding expectations.
- **Exit criteria**

- Specific exit criteria should be outlined whereby customer agencies may leave the agreement if the provider loses its SSP designation, fails to meet the requirements of the FMLoB Due Diligence Checklist, exhibits performance below an acceptable standard, and/or is no longer competitive.

- Customer agencies and SSPs may also negotiate transition costs in the exit criteria or as part of their overall contract.

- **Mitigation strategies**

  - The Customer Agency and SSP should establish agreed-upon procedures for taking corrective action and escalating non-compliance to the corrective action plan. Corrective action plans should also be shared as part of the agency's monthly "stop light" discussions with OMB.

  - The Customer Agency and SSP should establish a high-level plan of action to transfer services of the Customer Agency to another SSP in the event the Customer Agency chooses to leave the agreement.

3. (NEW) What should our agency do if our current agreement with an SSP does not include an SLA?

If an agency has acquired SSP services that meet the FMLoB requirements, but does not have agreements that include the elements listed in FAQ Part G, Question #2 in place, the agency should establish the necessary agreement vehicles upon exercising the next option period.

4. Are there standard escalation and dispute resolution mechanisms when the terms and conditions of the SLA with a Federal SSP are not met?

The specific mechanisms are to be negotiated between the Customer Agency and the SSP. Agreements should be crafted so that performance difficulties can be identified early and a resolution can be determined before performance becomes an irreconcilable concern. These mechanisms should be documented in the SLA, which should include, at a minimum, performance-based fee structures, as described in FAQ Part G Question #2, adequate to mitigate risks.

Please refer to the SLA Overview (Section 2.5) and SLA Template (Section 2.6) in this Guidance document for additional information.

5. How is the accountability for poor performance of an SSP determined and addressed?

The specific mechanisms for addressing the concerns raised by agencies regarding accountability between a Federal SSP and a Customer Agency are being reviewed.

While it is expected that all SSPs supply excellent value in relation to the investment of the agency, due diligence lies with both parties for addressing performance issues in a timely manner through a corrective action plan. Regardless of whether an agency has procured the services of a Federal or a commercial SSP, the agreements between the two parties should specifically outline agreed-upon performance measures and targets. The measures and targets should include positive and negative incentives, as appropriate, which are acceptable to both parties for excellent performance and non-performance respectively. Incentives do not need to be of monetary value and could be time-based or quality-based.

For both Federal and commercial SSPs, poor performance of the SSP may impact its ability to continue to viably market its services to future customers.

Part H: Managing Migration Risks

1. What are some of the examples of risks our agency should anticipate in preparing for a migration, and what are recommendations to mitigate these risks?

Risk	Mitigation Strategy
Leadership and Governance	
Lack of Senior Leadership buy-in	▪ Formally authorize the agency's FMLoB migration effort with a plan/charter and budget request signed by the Agency head. ▪ Align the project goal with the Agency's Strategic Plan. ▪ Establish the executive sponsor for the FMLoB initiative as someone who has broad authority across the organization, including program offices. ▪ Establish an Executive Steering Committee that involves senior stakeholders.
Ineffective coordination and communication between the CFO/CIO	▪ Establish a governance structure that involves both organizations. ▪ Establish the executive sponsor for the FMLoB initiative as someone with authority over both the CFO and the CIO.
Project Management	
Ineffective coordination and decision-making due to unclear lines of responsibility	▪ Engage key stakeholders from each office in outlining the governance structure of the entire migration effort. ▪ Document responsibilities and decision-making authority for each role in the governance model. ▪ Obtain sign-off on the governance model from executive stakeholders.
Poor project management	▪ Establish a well-qualified project manager with good communication skills, risk

Risk	Mitigation Strategy
	management experience, technical expertise, and sense of the big picture. ▪ Encourage project leads to obtain Project Management Professional (PMP) certification. At a minimum, ensure adequate project management experience. ▪ Assign dedicated management resources to the project. ▪ Educate team members on Project Management Institute (PMI) methodology to provide a uniform foundation in proven project management practices. ▪ Institute a solid project plan, risk management plan and management processes, possibly using a Project Management Office and IV&V contractors to ensure project deliverables and timeframes are meeting expectations.
Scope creep	▪ Agree on the Project Initiation documents and the process for managing changes that affect scope, cost, and timeline. ▪ Use the “To-Be” architecture and requirements documents to control scope.
Lack of clear requirements	▪ Establish and publish a robust requirements gathering methodology. ▪ Involve key stakeholders in the requirements identification process. ▪ Document conversations and requirements. ▪ Draft requirements with Agency and SSP stakeholders, including members of the Functional and Technical Teams to ensure clarity and gain signoff on requirements from both parties.
Loss of momentum in government-wide implementation	▪ Ensure there is both a project management mechanism for tracking progress towards outcomes and milestones and a communications plan for

Risk	Mitigation Strategy
	communicating progress to stakeholders.
Inability to implement disciplined processes	▪ Define success up front. ▪ Use metrics to focus on outcomes and establish a mechanism for reporting progress towards the outcomes. ▪ Establish a comprehensive project plan and a mechanism for reporting progress against the plan.
Change Management	
Lack of user involvement	▪ Identify project areas where user involvement is desired and/or needed, ▪ Prioritize and quantify the user involvement needs. ▪ Ask management for commitment of “X” resources. ▪ Tie user involvement to completion of tasks.
Staff resistance to change	▪ Develop a change management plan that addresses how change will be managed throughout the organization. ▪ Develop a human capital plan to help the organization understand future opportunities. ▪ Empower staff to feel integral in the success of the migration. ▪ Develop a communications plan to improve understanding of the benefits of migration.
Staff is not ready for the change	▪ Develop a human capital plan to help train staff and to help staff prepare themselves for the change.
Technology Risks	
Feeder systems	▪ Define interfaces in an Enterprise Architecture blueprint as part of the Concept of Operations phase. ▪ Engage feeder system owners as part of the Migration Team to ensure there is two-

Risk	Mitigation Strategy
	way communication on system changes. ▪ Perform end-to-end integration testing to ensure the flow of data from the feeder system to the new financial system is accurate. ▪ Initiate business process re-engineering to reduce redundancy and/or increase efficiency (potentially by leveraging other agencies processes).
Data Cleansing	▪ Define the scope of the data to be converted to the new financial management system. ▪ Migrate the system on a fiscal year boundary. ▪ Perform an analysis of the cleanliness of the data to be converted in the existing system, and develop a plan of action to cleanse bad data. ▪ Clarify early the roles and responsibilities of business managers in conducting the data cleansing and obtaining data quality and consistency.
Excessive modification of COTS Systems	▪ Develop a solid Concept of Operations that considers business process changes before system changes.
Failure to adequately consider existing IT management processes and framework	▪ Align with the CIO on the enterprise architecture for the financial system.

Data Conversions	▪ Develop a conversion planning document that:
	  ▪ Addresses timing of converting open transactions and balances to the new system,
	  ▪ Determines a schedule of transaction cut-off dates, internal controls and reconciliation efforts, and
	  ▪ Identifies resources for related

Risk	Mitigation Strategy
	activities and allows for a completed testing of month-end, quarter-end and year-end processing against converted data. ▪ Identify all system "jobs" processes that run based on year-end data and determine if converted data is recognized. ▪ OMB cautions that mid-year conversion may interfere with audit requirements.[15]

The Change Management Best Practices (Section 3.1) and Project Schedule Overview and Template (Sections 4.1 and 4.2) in this Guidance provide further suggestions and more detail on how to mitigate some of the above risks.

Additional resources on risk include the GAO report, <u>Financial Management Systems: Additional Efforts Needed to Address Key Causes of Modernization Failure</u> (GAO-06-184, March 2006) and the Information Technology Resources Board handbook, <u>Project Management for Mission Critical Systems</u> (revised April 2005).

2. My agency has many feeder systems to its financial management systems. How will migrating impact its interfaces?

Agencies must consider the costs and risks of integrating its feeder systems as part of its enterprise architecture and as part of its business case analysis.

Agencies are responsible for ensuring the feeder systems in their core financial system are compliant with the FFMIA and the CFO Act of 1990. Each agency is expected to have an enterprise architecture (EA) blueprint that depicts all feeder systems that interface with its financial management system and to understand each feeder system's requirements. This blueprint should be in alignment with the EA blueprint for the entire agency. The agency is expected to share this blueprint and feeder system interface development and support requirements with the SSP. The Project Schedule detailed in Sections 4.1 and 4.2 of this Guidance document outlines a Concept of Operations phase for developing this blueprint.

[15] JFMIP Whitepaper, "Financial Systems Data Conversion Considerations", December 20, 2002. http://www.fsio.gov/fsio/download/jfmip/otherreports/Financial_Systems_Data_System_Conversion_final.doc

Further, it is recommended that the Customer Agency and the SSP come to a shared definition of how the Customer Agency's interfaces will continue to operate, and document this understanding as part of its formal agreement(s).

3. Who is responsible for data clean-up of my agency's core financial data and the feeder systems as part of the migration?

The primary responsibility is with the migrating agency. However, several SSPs also offer consulting services for data clean-up. The Menu of Services by Provider (Sections 5.2 and 5.3 of this Guidance) indicates which of the providers offers such consulting services.

4. How should my agency's CIO and CFO share the responsibilities of migrating to an SSP?

Each migrating agency needs to establish a governance structure that best meets the financial management and enterprise architecture requirements of that agency. OMB recommends that the governance structure include members within the CFO and CIO offices. An example of a governance structure is provided in Section 3.1 Change Management of this Guidance document.

5. Are agencies expected to standardize their accounting code or business processes prior to migration?

Standardization of the accounting code and business processes will facilitate seamless and standardized data exchange. It will enable the development of standard interfaces with other Lines of Business initiatives, and improve the potential for intra-governmental reconciliation and aggregation of financial data. It will also reduce the costs and risks of migrating between SSPs and establishing interfaces between agency business systems.

Once the FMLoB standardizations of business processes and common government accounting code (CGAC) have been finalized, agencies should standardize as part of their migration. Agencies should also be aware that, outside of the FMLoB standardizations, SSPs may require other standardization of its customer agencies depending on the level of service requested.

All FSIO-compliant systems will be required to adopt, within a reasonable timeline, the standard CGAC and business processes established for FMLoB. The schedule will be determined at a later date, once the standards are finalized and the impacts to FSIO-compliant system requirements are identified.

In addition, a schedule for standardizing the CGAC and processes of those agencies and SSPs who have not implemented the standards will be developed at a later date.

6. If my agency moves its transaction processing to an SSP, who is accountable for funds control?[16]

If a Customer Agency enters into an agreement or contract with an SSP for transaction processing, the SSP must employ the appropriate internal controls based on the Customer Agency's requirements and OMB Circular A-123 process definitions. However, the Customer Agency is ultimately responsible for compliance with the appropriate statutes governing funds control, cost information, and the overall accuracy of its financial information. The fact that an independent or semi-independent provider is processing the information, or providing an IT platform to process the information does not in any way relieve the Customer Agency of its responsibility for overseeing its own financial management. Each agency must continue to apply oversight of these processes, and to certify the accuracy and validity of their financial information.

7. What happens if my agency encounters funds control issues as a result of system defects or configuration issues in the application environment?

The specific procedures for taking corrective action and escalating non-compliance to the corrective action plan should be outlined in the SLA between the Customer Agency and the SSP. In this scenario, the following process is recommended.

If a Customer Agency encounters funds control issues as a result of system defects or configuration issues in the application environment, it should work with the SSP to isolate the cause of the issue and activate a corrective action plan.

- If the issue is with the feeder system, or customization of certified financial management software, and the Customer Agency has not contracted the application management to the SSP, then the responsibility to address the issue resides with the agency. If the Customer Agency has contracted

16 This question is also discussed in the report Financial Management Shared Service: A Guide for Federal Users, Research Series: Report No. 2, July 2005, Association of Government Accountants, Corporate Partner Advisory Group.

application management to the SSP, the SSP is then responsible for addressing the system defect. Terms should be outlined in a corrective action plan as required by the SLA.

- If the issue is with the underlying certified financial management software, then the SSP would need to resolve the issues with the vendor under its licensing agreement. Terms should be outlined in a corrective action plan as required by the SLA.

- If the issue is with the operational procedures of the SSP, then the Customer Agency and SSP should activate a corrective action plan as required by the SLA.

- If the issue is with a Customer Agency process outside of the control of the SSP, then the Customer Agency is responsible for developing its own corrective action plan.

Ultimately, it is the Customer Agency's responsibility to enter into an agreement with an SSP that provides sound internal controls, particularly as it relates to funds control.